

Message Text

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ORIGIN EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 ISO-00 AGR-05 AGRE-00

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DRAFTED BY EB/ICD/TRP:TJO'DONNELL:BLO

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FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MEXICO CITY

AMEMBASSY PARIS

AMCONSUL RIO DE JANEIRO

AMEMBASSY SAN SALVADOR

AMCONSUL SAO PAULO

AMEMBASSY TANANARIVE

C O N F I D E N T I A L STATE 225399

E.O. 11652: GDS

TAGS: ETRD, EAGR, BR

SUBJECT: COFFEE: BRAZILIAN PURCHASE OF IVORY COAST AND
MADAGASCAR COFFEE

1. DEPUTY ASSISTANT SECRETARY KATZ CALLED IN AMBASSADOR
PINHEIRO SEPTEMBER 10 TO DELIVER A SECOND AIDE MEMOIRE
EXPRESSING CONCERN OVER BRAZILIAN COFFEE PURCHASES FROM
OTHER PRODUCING COUNTRIES. TEXT OF AIDE MEMOIRE BEING
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TRANSMITTED SEPTEL.

2. IN PRESENTING AIDE MEMOIRE, DEP. ASST. SEC. KATZ STRESSED THAT WE VIEW THE MATTER WITH GREAT CONCERN. HE SAID THAT THE OPERATION OF THE INTERNATIONAL COFFEE ORGANIZATION REQUIRES COOPERATION ON BOTH SIDES AND THAT THE U.S. CANNOT SUSTAIN ITS COOPERATIVE SPIRIT IN THE FACE OF WHAT APPEARS TO BE DELIBERATE EFFORTS BY BRAZIL TO MANIPULATE COFFEE PRICES. KATZ SAID THAT THE QUANTITIES REPORTEDLY PURCHASED ARE FAR IN EXCESS OF THE REQUIREMENTS OF THE BRAZILIAN SOLUBLE INDUSTRY AND THAT THE ANNOUNCEMENT OF THE PURCHASES HAS RESULTED IN PRICE RISES WELL BEYOND SUSTAINABLE LEVELS.

3. KATZ ALSO POINTED OUT THAT SINCE EXPORTS FROM ONE PRODUCER TO ANOTHER WILL NOT BE CREDITED TO THE SELLING COUNTRY FOR PURPOSE OF EVENTUAL QUOTA CALCULATION, SUCH SALES WILL DISTORT THE ALLOCATION OF BASIC QUOTAS TO PRODUCING COUNTRIES. THIS COULD PRECLUDE THE EFFECTIVE OPERATION OF THE NEW AGREEMENT. KATZ CONCLUDED BY URGING THE GOVERNMENT OF BRAZIL TO UNDERTAKE AN URGENT REEXAMINATION OF ITS POLICY OF PURCHASING COFFEE ABROAD PRIOR TO DISCUSSIONS AT THE ICO MEETING AT THE END OF SEPTEMBER.

4. AMBASSADOR PINHEIRO REITERATED THAT BRAZIL NEEDS TO PURCHASE CERTAIN TYPES OF COFFEE ABROAD TO MEET THE NEEDS OF ITS FREEZE DRIED AND SOLUBLE INDUSTRIES. HE STATED BRAZIL SHARES OUR INTEREST IN STABLE PRICES. HE SAID BRAZIL IS NOT BUYING COFFEE ABROAD TO WITHDRAW IT FROM CONSUMPTION, BUT TO PROCESS IT AND RETURN IT TO THE MARKET.

5. PINHEIRO SAID BRAZIL HAS DONE ITS BEST TO SUPPLY THE MARKET THUS FAR THIS YEAR, ADDING THAT IF IT WANTED TO MANIPULATE PRICES IT COULD EASILY SUSPEND OR REDUCE SALES FROM ITS OWN STOCKS. HE NOTED THAT WHEN THE SUBJECT HAD COME UP IN THE RECENT BILATERAL TRADE CONSULTATIONS, THE U.S. REPS HAD INDICATED IT SHOULD BE DISCUSSED IN THE ICO RATHER THAN BILATERALLY. HE SAID BRAZIL HAD AGREED TO DISCUSSIONS IN THE ICO. HE EXPRESSED REGRET THAT WHENEVER COFFEE PRICES ARE HIGH, BRAZIL IS ALWAYS CON-

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SIDERED THE VILLAIN. HE CONCLUDED BY STATING HE THOUGHT THE AIDE MEMOIRE WAS TOO STRONG IN IMPLYING BRAZIL WAS DELIBERATELY MANIPULATING THE MARKET.

6. MR. KATZ RESPONDED THAT HE DID NOT CONSIDER BRAZIL A VILLAIN. HOWEVER, SPEAKING FRANKLY, HE COULD NOT UNDERSTAND WHY BRAZIL IS PURCHASING 560,000 BAGS OF SALVADORAN COFFEE. HE DID NOT KNOW WHY BRAZIL IS BOTH BUYING AND

SELLING COFFEE. HOWEVER, HE DID KNOW THAT PRICES ARE CONSIDERABLY HIGHER NOW THAN THEY WERE IN THE SPRING WHEN THE THREAT OF A SECOND FROST STILL EXISTED. HE ALSO KNEW THAT IT WAS A VERY NERVOUS MARKET AND THAT THE COMMODITY FUTURES TRADING COMMISSION IS INVESTIGATING SUGGESTIONS THERE MIGHT BE A LINKAGE BETWEEN THE BRAZILIAN PURCHASES AND RECENT UNUSUAL MOVEMENTS IN THE SEPTEMBER FUTURES CONTRACT ON THE NEW YORK COFFEE EXCHANGE. KATZ SAID THE USG HOPES TO AVOID THIS ISSUE DEVELOPING INTO A MAJOR BILATERAL PROBLEM. AT THE SAME TIME WE WANT THE GOB TO KNOW THAT OUR CONCERN IS SERIOUS AND GROWING. KISSINGER

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